

IDEXX LABORATORIES INC /DE
Form 10-Q
October 31, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2017

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____.

COMMISSION FILE NUMBER: 000-19271

IDEXX LABORATORIES, INC.

(Exact name of registrant as specified in its charter)

DELAWARE
(State or other jurisdiction of incorporation
or organization)

01-0393723
(IRS Employer Identification No.)

ONE IDEXX DRIVE, WESTBROOK, MAINE 04092

Edgar Filing: IDEXX LABORATORIES INC /DE - Form 10-Q

(Address of principal executive offices) (ZIP Code)

207-556-0300

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer

Non-accelerated filer Emerging growth company

(Do not check if a smaller reporting company)
Smaller reporting company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. The number of shares outstanding of the registrant's Common Stock, \$0.10 par value per share, was 87,218,713 on October 24, 2017.

GLOSSARY OF TERMS AND SELECTED ABBREVIATIONS

In order to aid the reader, we have included certain terms and abbreviations used throughout this Quarterly Report on Form 10-Q below:

Term/ Abbreviation	Definition
AOCI	Accumulated other comprehensive income or loss
ASU 2014-09	Accounting Standards Update (“ASU”) 2014-09, “Revenue from Contracts with Customers (Topic 606), also referred to as the “New Revenue Standard”
ASU 2016-09	ASU 2016-09, “Compensation – Stock Compensation (Topic 781): Improvements to Employee Share-Based Payment Accounting”
ASU 2017-01	ASU 2017-01, “Business Combinations (Topic 805): Clarify the Definition of a Business”
CAG	Companion Animal Group, a reporting segment, provides veterinarians diagnostic products and services and information management solutions that enhance the health and well-being of pets
Credit Facility	Our \$850 million five-year unsecured revolving credit facility under an amended and restated credit agreement that was executed in December 2015
EPS	Earnings per share. If not specifically stated, EPS refers to earnings per share on a diluted basis
EU	European Union
FASB	U.S. Financial Accounting Standards Board
LPD	Livestock, Poultry and Dairy, a reporting segment, provides diagnostic products and services for livestock and poultry health and to ensure the quality and safety of milk and improve dairy efficiency
OCI	Other comprehensive income or loss
OPTI Medical	OPTI Medical Systems, Inc., a wholly-owned subsidiary of IDEXX Laboratories Inc., located in Roswell, Georgia. This business manufactures and supplies blood gas analyzers and consumables worldwide for the human point-of-care medical diagnostics market. The Roswell facility also manufactures electrolytes slides (instrument consumables) to run Catalyst One® and Catalyst Dx®, and blood gas analyzers and consumables for the veterinary market. Also referred to as OPTI
R&D	Research and Development
SEC	U.S. Securities and Exchange Commission
Senior Notes Agreement	Private placement senior notes having an aggregate principal amount of approximately \$600 million, referred to as senior notes
U.S. GAAP	Accounting principles generally accepted in the United States of America
Water	Water, a reporting segment, provides water microbiology testing products around the world

IDEXX LABORATORIES, INC.

Quarterly Report on Form 10-Q

Table of Contents

Item No.		Page
	PART I—FINANCIAL INFORMATION	
Item 1.	Financial Statements (unaudited)	
	Condensed Consolidated Balance Sheets as of September 30, 2017 and December 31, 2016	3
	Condensed Consolidated Statements of Operations for the Three and Nine Months Ended September 30, 2017 and 2016	4
	Condensed Consolidated Statements of Comprehensive Income for the Three and Nine Months Ended September 30, 2017 and 2016	5
	Condensed Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2017 and 2016	6
	Notes to Condensed Consolidated Financial Statements	7
Item 2.	Management’s Discussion and Analysis of Financial Condition and Results of Operations	22
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	46
Item 4.	Controls and Procedures	47
	PART II—OTHER INFORMATION	
Item 1.	Legal Proceedings	47
Item 1A.	Risk Factors	47
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	48
Item 6.	Exhibits	49
	Signatures	50

PART I— FINANCIAL INFORMATION

Item 1. Financial Statements.

IDEXX LABORATORIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except per share amounts)

(Unaudited)

	September 30, 2017	December 31, 2016
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 169,019	\$ 154,901
Marketable securities	285,085	236,949
Accounts receivable, net of reserves of \$4,873 in 2017 and \$4,523 in 2016	228,159	204,494
Inventories	176,749	158,034
Other current assets	83,710	91,206
Total current assets	942,722	845,584
Long-Term Assets:		
Property and equipment, net	367,513	357,422
Goodwill	199,521	178,228
Intangible assets, net	45,251	46,155
Other long-term assets	114,327	103,315
Total long-term assets	726,612	685,120
TOTAL ASSETS	\$ 1,669,334	\$ 1,530,704
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current Liabilities:		
Accounts payable	\$ 60,583	\$ 60,057
Accrued liabilities	220,507	236,131
Line of credit	686,250	611,000
Current portion of deferred revenue	29,203	27,380
Total current liabilities	996,543	